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The Failure of Vertical Mergers

Frederick M. Schwarz

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The Failure of Vertical Mergers

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For Mom and Dad

*You have selflessly dedicated your lives to your children and making you proud is
the only way I can even begin to repay you.*

Abstract

Creating successful vertical mergers is a challenge for organizations across Corporate America. This honors thesis contains a study of five of those vertical mergers. To complete this study, five mini cases were created that outlined those deals. In addition, statistical analysis of the post merger abnormal returns was completed for each of these deals. Abnormal returns are calculated as the difference between the returns occurring in the post-merger period and the normal returns, i.e., the returns that would have been expected if the merger had not taken place.

This thesis targets the mergers of Viacom Corporation and CBS, Merck Corporation and Medco Corporation, Walt Disney Co. and ABC, Sony Corporation's acquisition of Columbia-Tristar, and the merger of America Online and TimeWarner.

This thesis shows that four out of five cases experienced negative abnormal returns between the date of the merger and May 2005. In the fifth case, where the abnormal return is positive, the value added is not statistically significant. The cases discuss these deals, taking care to document the discrepancies between what the architects of these mergers predicted on deal day and what actually resulted.

In the end, this thesis will confirm that the abnormal return was negative in four out of the five cases and that there were five distinct consistencies in incorrect management expectations.

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